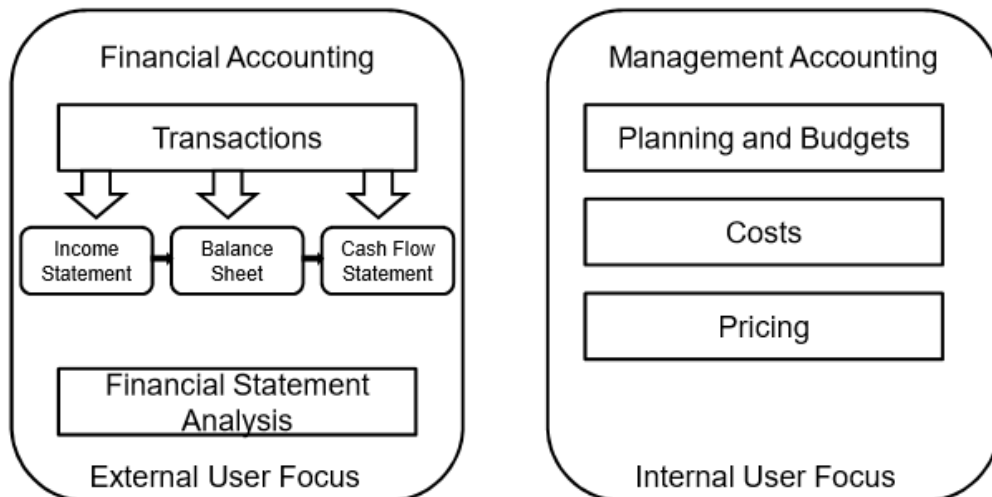
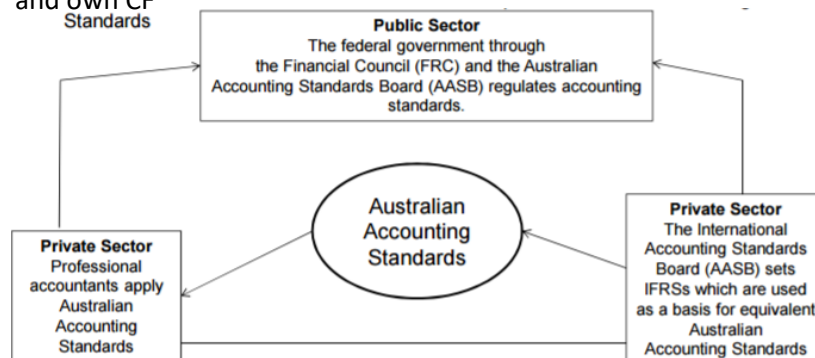


## Week 1

- **Accounting is the info system that measures business activity, processes data into reports and communicates the results to key decision makers**
- Key product of accounting is financial statements- report on a business in monetary terms and provide key info for internal and external decision making



- Financial accounting is the prep and presentation of financial info to allow users to make eco decisions about the entity
- MA provides eco information for internal users. Core activities include formulating plans and budgets. Info is used in monitoring and control within the entity
- Conceptual framework is a set of concepts defining the nature, purpose and content of general-purpose financial reporting. Used both by preparers and standard-setters.
  - Under conceptual framework you have primary and non-primary users, where primary users are resource providers e.g. equity investors, lenders and creditors
  - CF does not make explicit mention of external and internal users
- Ethics
  - E.g. Enron, OneTel “creative accounting”
  - CPA, ICAA etc. have codes of professional conduct- integrity, objectivity, due care, confidentiality, professional conduct
  - AASB responsible for technical standards
  - Aus has adopted International Accounting Standards- from 1 Jan 2005. Prior to 1970s no GAAP → resulted in dev of normative accounting. Aus uses mix of new CF and own CF Standards



- Accounting services offered by public practice firms
  - Auditing*- independent examination that assures reliability of accounting reports that management prepares- provide assurance to investors, creditors etc.
  - Tax accounting*- complying with tax laws and minimising taxes to be paid by preparing tax returns and planning business strategy
  - Management Consulting*- advice public accountants provide to help managers run a business. Provide suggestions for improvements in management structure and accounting systems
  - Insolvency*-Liquidators appointed (by creditors or courts) to manage business of a firm in financial distress
- Types of businesses

Sole Proprietorship	Partnership	Company
What are some advantages?		
total undivided authority	pooling in different resources of partners	separate legal existence
no restrictions on type of business – must be legal	more brain power, but consultation with partners Required	limited liability of Shareholders
easy to setup	simple to form	transferability of ownership relatively easy
What are some disadvantages?		
unlimited liability	unlimited personal liability for general partners	separation of ownership and control
limitation on size – fundraising power	partnership agreement highly recommended to overcome possible future problems	extensive governmental regulation

- Entity concept
  - An organisation (or section of an organisation) that stands apart from other organisations and individuals as a separate economic unit for the purpose of some decision**
  - Only info about transactions relating to the entity included in financial statements i.e. don't mix with personal finances
  - Entity concept also applies to combinations and subdivisions of legal entities- **to any economic unit that needs to be evaluated separately**
- Accounting period concept
  - Defines the time for which accounting data is collected
  - Periodic reports
  - Most accounting periods are one year. Most common is financial year, 1 July to 30 June- coincides with tax year-end
  - Managers want info more often-interim periods-monthly, quarterly, half-yearly
- Historical cost principle
  - Accounting measures based upon transaction costs
  - Assets and services acquired should be recorded at their actual cost (reliable and valid -- > objective)